



OVERBERG MARKET REPORT

Tuesday 26th January 2021

IN THIS WEEK'S BOTTOM LINE

Contributed by Gielie Fourie

- Elon Musk is now the richest person in the world. Very few people thought it would be possible to beat Jeff Bezos of Amazon. Yet, Elon Musk is now worth \$209 billion, \$17 billion more than Bezos. How did Musk do it? Read more in the Bottom Line.

SOUTH AFRICA ECONOMIC REVIEW

Contributed by Werner Erasmus

- Mining production in South Africa declined 11.6% year-on-year in November, following a 5.9% decline in October. It was the ninth consecutive month of annual decline in mining activity and at the fastest pace since June, due to tighter lockdown restrictions in some of South Africa's major export markets, particularly Europe. The largest negative contributors were iron ore, PGM's, manganese ore and coal. However, in contrast, diamond production spiked (56% vs 22.6%). On a month-on-month basis, mining production decreased by 5.7% in November. This followed month-on-month changes of -0.7% in October and -0.8% in September. The current consensus view is that the industry is facing a double-edged sword in terms of commodities. Although the industry is currently experiencing lower volume output of commodities it does present the possibility of stronger pricing. Commodities are still viewed as a positive contributor to Gross Domestic Product (GDP), although perceived now to be a delayed bright spot.
- November's retail sales disappointed with a decline of 4% from a year earlier, following a 2.3% decrease in the previous month. It was the eighth consecutive month of annual decline and at the quickest pace since August. Biggest contributors to the decline included all 'other' retailers, retailers in textiles, clothing, footwear and leather goods, food beverages and tobacco and general dealers. **On a month-on-month basis**, retail sales decreased 1.8%. This followed month-on-month changes of -0.5% in October and 1.1% in September. More encouragingly, in the three months ending November 2020 retail sales increased 4.3% compared with the previous three months. However, Covid-19 continues to have a devastating impact on the retail sector. Looking forward to December and January data, the retail sector's recovery is likely to be further constrained by harsher lockdown



measures, rising food and fuel prices, unemployment, and generally low consumer sentiment.

- Inflation, as measured by the consumer price index (CPI), fell to 3.1% in December, from 3.2% in the previous month. The main contributors to December's annual inflation of 3.1% were food and non-alcoholic beverages, housing and utilities, and miscellaneous goods and services. Overall, the average consumer inflation for 2020 was 3.3%, its lowest rate since 2004 and well within the South African Reserve Bank's (SARB) 3%-6% target range and below the midpoint target of 4.5%. The overall risks to the inflation outlook appear to be balanced in the near and medium term. There are no demand side pressures evident given the weak economic environment and muted economic growth outlook. On the supply side, electricity and other administered prices remain a serious concern. Local food price inflation is also higher but expected to remain broadly contained. Pass-through risks to inflation from currency depreciation are expected to stay muted. However, additional exchange rate pressures could result from fiscal risks. The SARB in its latest monetary policy statement forecast inflation for 2021 to be slightly higher at 4.0% (up from 3.9%) and 4.5% (up from 4.4%) for 2022. The forecast for 2023 is 4.6%.
- The South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) kept the Repo interest rate unchanged at 3.5% with the resulting prime rate also unchanged at 7%. For the third consecutive meeting, two members of the committee preferred a 25-basis points cut while three preferred to keep rates on hold. Economists and market analysts were split in their forecast between unchanged rates and a 25-basis points rate cut. The expectation for a 25-basis points rate cut was premised on muted inflation data and the weak economic outlook for South Africa, especially since the latest round of Covid-19 lockdowns. The SARB Quarterly Projection Model (QPM) indicates two increases of 25 basis points in the second and third quarters of 2021. The SARB noted that monetary policy has eased financial conditions and improved the resilience of households and firms to the economic implications of Covid-19. Nevertheless, the SARB again made clear that a faster growth rate depends on implementing prudent macroeconomic policies and structural reforms. The bank now forecasts the Gross Domestic Product (GDP) growth rate for the full year (2020) to be -7.1%, compared to the contraction of 8.0% expected at the time of the November meeting. GDP is now expected to grow by 3.6% in 2021 and 2.4% in 2022. GDP growth of 2.5% is expected in 2023. Global growth, vaccine distribution, a low cost of capital and high commodity prices are supportive of growth. However, new waves of the Covid-19 virus are likely to periodically weigh on economic activity both globally and locally. In addition, constraints to the domestic supply of energy, weak investment and uncertainty about vaccine rollout remain serious downside risks to domestic growth.

SOUTH AFRICA: THE WEEK AHEAD



Contributed by Ingrid Breed

- **Leading Business Cycle Indicator.** Due Wednesday 27 January 2021. After recording a 3.1% month-on-month increase in October 2020 with all ten of the available component series increasing during the month the South African Reserve Banks (SARB) leading business cycle indicator is expected to have increased again in November, although at a slower pace. Consensus forecast is that it increased 2.7% month-on-month in November as a result of the economy resuming activity after several months of lockdown.
- **Production Price Index.** Due Thursday 28 January 2021. The Production Price Index (PPI) for December is expected to have increased slightly from 3.0% year-on-year in November to 3.1% in December. This anticipated increase is attributed to gains in manufactured food and agriculture inflation. Despite the steep rise in global food prices the adequate rainfall and projected harvests will prevent South African food inflation from growing in double digits in 2021.
- **Private Sector Credit Extension.** Due Friday 29 January 2021. Following six months of slowing private sector credit extension (PSCE), there was a slight uptick in November, which is expected to have continued in December. However, South Africa's financial institutions continue being cautious in their lending and credit demand remains weak amid depressed labour market conditions. Consensus forecast is that PSCE increased 3.5% year-on-year in December up from 3.38% in November.
- **Balance of Trade.** Due Friday 29 January 2021. South Africa is expected to have recorded its eighth consecutive trade surplus in December, helped by the traditional seasonal decline of imports in December, which was most likely amplified by weakened domestic demand. Economists forecast a trade surplus of around R 35 billion.
- **Total New Vehicle Sales.** Due Monday 1 February 2021. Total new vehicle sales are expected to continue facing serious challenges including weak domestic demand, and negative business and consumer sentiment during the first quarter of 2021. While domestic demand remains weak the outlook for exports is improving. The consensus forecast for the current year is for a 15% increase in aggregate new vehicle sales volumes.

GLOBAL

Contributed by Nick Downing

- The consensus view is that the global economy will enjoy a powerful reflationary rally in the second half of the year, helped by the rollout of effective vaccination and the continuation of unprecedented fiscal and monetary stimulus. Joe Biden's ascendancy to the



White House and a Democrat controlled Congress add to the positive outlook. Biden has already introduced an additional \$1.9 trillion pandemic relief package and promises a further package aimed at infrastructure spending and clean energy in the second quarter. He promises greater international cooperation on trade, security and climate change. According to Reza Moghadam, chief economic adviser at Morgan Stanley, “growth across the world will be stronger than people think because you’ll have a massive recovery in the second half.” Not only does the scale of liquidity expansion eclipse the quantitative easing post the 2008/09 Global Financial Crisis (GFC) a large portion of it is trickling into the real economy, which was not the case after the GFC. Moreover, in contrast to fiscal austerity post GFC, there are massive fiscal transfers of cash to households. As a result, household balance sheets are bloated, and savings rates are at historic highs. These excess savings are likely to be mobilised as soon as the fear of Covid dissipates. The anticipated surge in demand will prompt businesses to increase their investment commitments. The most visible risks to the buoyant growth outlook include a rapid increase in inflation, political resistance to continued fiscal spending or a sharp equity market correction. However, the risks are moderate. By the end of the year the global economy should be well on the way to not just recouping lost ground but making new records.

NORTH AMERICA

Contributed by Nick Downing

- In the Senate hearing to confirm her as US Treasury secretary, Janet Yellen said “Neither the president-elect, nor I, propose this (\$1.9 trillion) relief package without an appreciation for the country’s debt burden... But right now, with interest rates at historic lows, the smartest thing we can do is act big.” Yellen’s bold fiscal activism is in sharp contrast to her conservative budgetary approach in the late 1990s when she chaired the Council of Economic Advisers under President Bill Clinton. At that point she advocated a balanced budget. Yet conditions were vastly different, the 10-year US Treasury bond was yielding 6% rather than 1%. While US government debt has doubled since then as a percentage of GDP, the Treasury’s interest bill has dropped from 3% of GDP to just 1.6%. The Congressional Budget Office (CBO) reported that despite government debt increasing last year by 25%, total interest payments reduced by 8%. The CBO forecasts that interest rates will remain low for much of the decade and despite burgeoning debt the interest bill will be less than predicted in pre-pandemic forecasts. Fiscal activists argue that one should be more concerned with total interest payments than with the level of total debt. President Biden argued that “With interest rates at historic lows, we cannot afford inaction.”
- The housing market, a bright spot in the US economy is expected to maintain its positive momentum in 2021. Existing home sales, which make up the bulk of the housing market,



increased in December by a massive 22% year-on-year, to its highest annual pace since 2006. Unlike 2006, there are no signs of a bubble. Lending standards are far more stringent, and demand far exceeds supply. There are only 1.07 million homes for sale, equivalent to 1.9 months' supply at the current sales rate, a record low inventory level. Conditions are positive for the housing market. Mortgage interest rates are highly affordable. The 30-year fixed rate mortgage settled at 2.77% last week compared to 3.6% a year ago. Meanwhile there is continued strong demand for larger homes as more people are able to work from home. There are numerous spinoffs for the broader economy, via increased furniture and home goods sales and via increased construction activity and home improvements. Housing starts increased in December by 5.8% month-on-month to an annualised rate of 1.67 million, its highest since 2006. New building permit applications also increased strongly, by 4.5% on the month at a 1.71 million annual rate, similarly the fastest since 2006, signalling a continuation of favourable home construction conditions over coming months.

- After falling back from elevated levels in December, the IHS Markit purchasing managers' indices (PMIs) measuring business conditions in manufacturing and services sectors of the economy, both unexpectedly increased in January despite the resurgence in Covid cases. The manufacturing PMI surged from 57.1 to 59.1 a new record, while the services PMI rebounded from 54.8 to 57.5 a 2-month high. Among the PMI sub-indices, the forward-looking new orders indices made a strong contribution especially in the manufacturing PMI, signalling further increases in activity levels over coming months. According to chief IHS business economist Chris Williamson, "US businesses reported a strong start to 2021, buoyed by hopes that vaccine developments will mean the worst of the pandemic is behind us, and that the new administration will provide a stable and supportive environment for stronger economic growth." One concern is that the manufacturing prices index climbed sharply to its highest since 2008, indicating potential supply chain bottlenecks and growing short-term inflationary risks.

CHINA

Contributed by Nick Downing

- In contrast with predictions made at the start of last year that businesses would reduce their reliance on China's supply chains, and move investment to other countries, quite the opposite has occurred. New direct foreign investment into China increased in 2020 by 4%. By comparison foreign direct investment into the European Union and into the US fell by 71% and 49%, respectively. Although the US holds the largest total stock of foreign investment, China overtook the US last year with the biggest annual inflow and is enjoying a rising trend as businesses seek to capture both the reliability, shown during the pandemic, and the increasingly important market. Beijing's pledges to lower trading barriers and its commitments to protect intellectual property rights should help maintain the positive trend. Greater certainty in US-China trade relations and a stable yuan should also boost the desirability of foreign direct investment into the country. The sizeable gap



between China's interest rates and those in the US and other developed economies, coupled with prospects for solid GDP growth of 7-8% in 2021, will help the currency. The yuan is expected to appreciate over the coming year, especially against the US dollar which is likely to maintain its weakening trajectory.

JAPAN

Contributed by Carel la Cock

- The Jibun Bank Flash Japan Composite PMI for January has revealed that business activity in the private sector of the world's third biggest economy has deteriorated at a faster pace compared to December. The services sector saw stronger declines in both new orders and new export orders, while employment levels were largely unchanged, but business outlook softened from the month before. Manufacturing output declined after being unchanged in December but reported growth in new orders and a slower decline in export orders. Employment in the manufacturing sector declined in January following growth in December. The private sector has been impacted by further covid-19 preventative measures implemented in city centres like Tokyo and market participants are concerned that the effects of the global pandemic could linger for a prolonged period impacting demand for Japan's exports, a key driver in its recovery.

EUROPE

Contributed by Carel la Cock

- The European Central Bank (ECB) has left its benchmark interest rate and other accommodative measures unchanged following its scheduled meeting last week. ECB president, Christine Lagarde stressed that the ECB's emergency bond purchases remain flexible and that they are committed to "preserve favourable financing conditions over the pandemic period." Thus far the central bank's bond purchases have ensured record low borrowing costs for governments, businesses, and households, but the news spooked investors who fear that the ECB could reduce its monthly bond purchases. Ms Lagarde explained that "favourable financing conditions" would be based on numerous measures and overall conditions, rather than on one specific indicator, but warned that the short-term outlook has significant risks due to more stringent lockdown measures. The ECB expects the weakness brought on by the second wave of covid-19 cases to spill into the new year and likely cause a technical recession but sees a recovery in the second part of the year with overall growth of 3.9% in 2021. Market participants do not expect any further policy changes from the ECB in the first half of the year.



UNITED KINGDOM

Contributed by Carel la Cock

- Private sector business activity in the UK contracted in the first month of the year with the recent lockdown measures, post-Brexit trade friction and disruptions at border ports all contributing to the latest IHS Markit/CIPS Flash UK Composite Output Index falling from 50.4 in December to 40.6 in January. It also marks the lowest reading since June. The Flash UK Services Business Activity Index plummeted from 49.4 to 38.8 in January reflecting the impact of the latest lockdown measures to curb the second wave of covid-19 cases with a new strain of the virus proving to be more contagious. The Flash UK Manufacturing Output Index also dropped sharply from 55.9 in December to 50.3 in January but remained above the key 50 level indicating an overall increase. The manufacturing sector saw a drop in export orders and experienced difficulties with supply chains post-Brexit. Suppliers recorded the largest increase in delivery times since records began nearly 30 years ago. Despite the fall in business activity, owners remain upbeat about the next twelve months, pinning hopes on a successful roll-out of the vaccine. Analysts expect there to be a further contraction in the economy in the first quarter, putting the UK on course for a double dip recession. However, the market is already looking past the latest figures towards a recovery in the latter part of the year as lockdowns ease and normality returns.

EMERGING MARKETS AND THE FAR EAST

Contributed by Carel la Cock

- South Korea's economy grew by 1.1% quarter-on-quarter in the fourth quarter, beating analysts' expectations but falling short of the 2.1% growth in the third quarter. The latest growth figures are strengthening the view that Asia's fourth largest economy is poised for robust growth in 2021. The Bank of Korea forecast in November that growth for 2021 would be 3%, up from its previous forecast of 2.8% but some analysts expect it could be as high as 5%. South Korea was hit by a second wave of covid-19 cases in December which impacted consumer spending but it has successfully brought it under control and plans to vaccinate up to 70% of the population by the end of the year in an effort to obtain herd immunity. The economy has benefitted from a sharp increase in demand for technology products and the rapid recovery of its major trading partner, China. Strong export growth in the latter stages of 2020 is set to continue into the new year and together with continued government spending and a successful vaccine rollout will see South Korea's economy return close to pre-pandemic levels by the end of 2021, putting it amongst the fastest recoveries in the world.



KEY MARKET INDICATORS (YEAR TO DATE % AND LEVEL)

JSE All Share	+ 8.67	64559
JSE Fini 15	- 4.23	11549
JSE Indi 25	+ 14.08	88868
JSE Resi 20	+ 8.13	62256
R/\$	- 3.62	15.24
R/€	- 3.00	18.51
R/£	- 3.66	20.84
S&P 500	+ 2.64	3855
Nikkei	+ 5.02	28822
Hang Seng	+ 10.75	30159
FTSE 100	+ 2.76	6638
DAX	- 0.55	13643
CAC 40	- 1.42	5472
MSCI Emerging	+ 9.21	1410
MSCI World	+ 2.46	2756
Gold	- 2.29	1850
Platinum	+ 2.76	1099
Brent oil	+ 6.97	55.41

BOTTOM LINE

Contributed by Gielie Fourie



- **ELECTRIC POWERED VEHICLES (EVs):** Sales of electric-powered vehicles, which includes Battery Electric Vehicles, Plug-in Hybrid Vehicles and Hybrid Electric Vehicles are taking off all over the world. Elon Musk, the co-founder, and CEO of Tesla, is the main “driver” behind this trend.
- **WHO IS ELON MUSK?** Elon Musk was born in Pretoria in 1971. His father is a South African electromechanical engineer. His mother is from Canada. His parents divorced in 1980. He matriculated at Pretoria Boys High, studied at the University of Pretoria for five months, then emigrated to Canada in 1989 where he studied at Queen's University, Ontario. Two years later, he transferred to the University of Pennsylvania; he graduated in 1997 with a BSc degree in economics and a BA degree in physics. Musk founded many companies. He was an early investor in Tesla Motors, founded in 2003. Musk joined in 2004 and provided \$6.5 million in funding. This investment changed the face of the car industry forever. The company's name is a tribute to the inventor, Nikola Tesla.
- **WHO WAS NIKOLA TESLA (1856 - 1943):** Tesla was born in the present-day Croatia. Tesla had a photographic memory. He read a lot, memorizing complete books. He could speak eight languages. He was able to perform complicated calculations in his head, which prompted his lecturers to believe that he was cheating. He attended the Graz University but dropped out. At university he became interested in electricity. In 1884, he emigrated to the US where he worked at a company owned by Thomas Edison. When Edison briefly met Tesla, Edison commented: “this is a damned good man”. Tesla later left the Edison company to form his own company, Tesla Electric. Tesla's work and patents were all in the field of electricity. His ideas were often stolen. Tesla remarked: “I do not care that they stole my ideas ... I care that they do not have any of their own”. He never married.
- **TESLA SALES:** Tesla came within a hair breadth of meeting its target of selling 500,000 vehicles in 2020. Tesla sold 499,550 cars, missing its target by just 450 cars. This pushed up Tesla's share price by 677% in 2020. Tesla is popular in Europe. The best-selling Tesla is the Model 3. Nikola Tesla once commented: “If you only knew the magnificence of the figures 3, 6 and 9, then you would have the key to the universe.”
- **NORWAY:** Norway passed an important milestone in 2020. EVs accounted for more than 50% of new passenger car registrations for the first time in 2020. They are way ahead of the USA where EVs, including hybrids, accounted for less than 2% of light vehicle sales.
- **UNITED KINGDOM:** In the UK, the best-selling car in December 2020 was the Tesla Model 3 with 5,798 units. This was 30% more than the 4,470 units sold by second placed VW Golf. In the UK, the 2020 sales of EVs were up 185.9%. Petrol-powered cars were down 39.0%; Diesel-powered cars were down 55.0%. There is a clear switch to EVs in the UK.
- **GERMANY:** German EV sales were 27% of total vehicle sales in December 2020 - a new record. The switch to EVs is happening much quicker than the forecasts. The question is: Have EV sales reached critical mass?



- **IVECO AND NIKOLA:** Iveco and Nikola are leading the race in the switch to hydrogen powered trucks. Iveco (Italian Vehicle Company) is the fifth largest and most disruptive heavy truck manufacturer in Europe. At the same time, across the Atlantic, Nikola Corporation, a US company named after Nikola Tesla, has presented several zero-emission concepts for trucks since 2016. Its goal is to manufacture zero-emission trucks for the European market. It found a perfect partner in Iveco. They formed a Joint Venture, which provides them with a head start in the race to produce zero-emission trucks. Gerrit Marx, pres. of Iveco said: “Hydrogen fuel cells are the ultimate solution for long-haul haulage. Refueling is much faster than recharging a battery.” Trevor Milton, founder of Nikola, added: “If our competitors knew what we had in our pipeline, they would be blown away.” Nikola’s share price shot up from \$10.00 to \$60.00 in 2020, without selling a single vehicle. The price dropped again. One to keep on the radar.
- **ENVIRONMENTAL, SOCIAL and GOVERNANCE (ESG) ADVANTAGES:** Businesses across all industries are under intense pressure from customers, governments, and stakeholders to reduce their carbon footprints - to be “ESG friendly”. Tesla was the disrupter in the light vehicle (car) industry. Nikola and Iveco are determined to be the disrupters in the heavy vehicle (truck) market. There is still a debate about the practicality of hydrogen powered vehicles. Elon Musk has famously called hydrogen fuel cells “mind-bogglingly stupid.”
SUMMARY: Nikola Tesla died on 7 January 1943. He would never have thought that on the very same day in 2021, Elon Musk, CEO of Tesla, a car bearing his name, would become the richest person in the world. Nikola Tesla once remarked: “Of all things, I like books best.” The same is true of Musk. When Elon Musk was asked: “What is the secret of your success”, his answer was only three words: “I read books”. Indeed, “Readers are Leaders”.

Disclaimer

Information and opinions presented in this Report were obtained or derived from public sources that Overberg Asset Management believes are reliable but makes no representations as to their accuracy or completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this Report and should not be relied upon. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Furthermore, Overberg Asset Management accepts no responsibility or liability for any loss arising from the use of or reliance placed upon the material presented in this Report.